

Message Text

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PAGE 01 OTTAWA 02571 01 OF 02 192328Z
ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-10
L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 ICA-11
EB-08 OMB-01 COME-00 FRB-03 TRSE-00 /078 W
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R 192314Z MAY 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 7463
INFO AMCONSUL MONTREAL
ALL OTHER CONGENS IN CANADA POUCH

LIMITED OFFICIAL USE SECTION 01 OF 02 OTTAWA 02571

E.O. 11652: N/A
TAGS: EFIN, CA
SUBJECT: BANK ACT REVISION TABLED IN PARLIAMENT

1. SUMMARY. BANK ACT REVISIONS INTRODUCED IN PARLIAMENT FOLLOW GENERAL LINES OF 1976 WHITE PAPER. U.S. AND OTHER FOREIGN-OWNED BANKS WILL BE PERMITTED TO SET UP DEMAND DEPOSIT-TAKING BANK SUBSIDIARIES. LIMITATIONS ON NEW FOREIGN BANK SUBSIDIARIES INCLUDE CEILING FOR ALL FOREIGN BANKS OF FIFTEEN PERCENT OF TOTAL CANADIAN BANKING ASSETS; AND TEMPORARY CEILING FOR ANY ONE FOREIGN BANK OF CDOLS 500 MILLION ON TOTAL ASSETS AND MAXIMUM OF FIVE BRANCHES IN CANADA ON BASIS OF RECIPROCITY IN THE FOREIGN BANK'S HOME COUNTRY. BILL DOES NOT CONTAIN RESERVE REQUIREMENTS FOR NEAR-BANKS AS PROPOSED IN THE WHITE PAPER, A PROVISION WHICH WAS STRONGLY OPPOSED BY PROVINCES (ESPECIALLY QUEBEC) AS INFRINGEMENT ON THEIR JURISDICTION. RESERVE REQUIREMENTS FOR ALL DEPOSIT-TAKING BANKS IS TO BE CUT. PROVINCIAL GOVERNMENTS MAY INITIALLY OWN UP TO 25 PERCENT OF THE NEW BANKS. END SUMMARY.

2. AFTER REPEATED DELAYS, PROPOSED REVISION IN BANKING
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PAGE 02 OTTAWA 02571 01 OF 02 192328Z

LEGISLATION WAS INTRODUCED INTO PARLIAMENT ON MAY 18 AS BILL C-57. PROPOSAL REPRESENTS COMPROMISE BETWEEN THOSE IN FEDERAL GOVERNMENT SEEKING GREATER COMPETITION IN CANADA'S HIGHLY CONCENTRATED BANKING SECTOR; DESIRE OF EXISTING BANKING COMMUNITY TO KEEP COMPETITION LIMITED; AND PROVINCIAL DESIRES TO IMPROVE LOCAL BANKING SERVICES (ESPECIALLY IN THE WEST), WHILE PRESERVING EXISTING PRO-

VINCIAL JURISDICTION OVER NEAR-BANK FINANCIAL INSTITUTIONS (ESPECIALLY IN QUEBEC). IN ADDITION, INTRODUCTION OF LEGISLATION WAS REPORTEDLY STALLED LAST WINTER BECAUSE OF FEDERAL DESIRE TO AVOID POSSIBLE SENSITIVE LEGISLATION JUST PRIOR TO NATIONAL ELECTIONS. WITH ELECTIONS NOW POSTPONED, GOC APPARENTLY FELT LEGISLATION COULD NOT BE DELAYED FURTHER.

3. C-57 WILL ALLOW INCREASED COMPETITION AMONG DEMAND DEPOSIT-TAKING (CHARTERED) BANKS, BUT LIMITATION ON AMOUNT OF ASSETS, NUMBER OF BRANCHES, AND FOREIGN PERCENTAGE OF TOTAL CANADIAN BANKING ACTIVITY WILL REDUCE IMMEDIATE

COMPETITIVE THREAT TO POSITION OF EXISTING CANADIAN BANKS. CABINET INTENDS FOR NOW TO LIMIT TOTAL ASSETS OF ANY INDIVIDUAL NEW BANK TO CDOLS 500 MILLION, ALTHOUGH THIS CEILING CAN BE INCREASED AT THE CABINET'S DISCRETION IN LATER YEARS. FOREIGN BANKS IN TOTAL WILL ALSO BE LIMITED TO FIFTEEN PERCENT OF TOTAL DOMESTIC BANKING ASSETS. AS IN THE CASE OF EXISTING CHARTERED BANKS, NEW FOREIGN BANKS WILL NOT IN PRINCIPLE BE LIMITED GEOGRAPHICALLY WITHIN CANADA, BUT (UNLIKE EXISTING CHARTERED BANKS) WILL HAVE A LIMIT OF FIVE BRANCHES, PROVIDED CANADIAN BANKS ARE GIVEN RECIPROCAL TREATMENT IN ESTABLISHING BRANCHES IN THE FOREIGN BANK'S HOME COUNTRY.

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PAGE 03 OTTAWA 02571 01 OF 02 192328Z

4. THE PROVISION THAT PROVINCIAL GOVERNMENTS MAY OWN UP TO 25 PERCENT OF NEW BANKS FOR THE FIRST TEN YEARS, AND UP TO TEN PERCENT AFTER THAT TIME, WAS PUT IN TO MEET THE DESIRE OF PROVINCES, ESPECIALLY IN WESTERN CANADA, TO ENCOURAGE LOCAL BANKING ACTIVITY. THEY HAVE LONG COMPLAINED THAT THE CURRENT NATIONAL BRANCH BANKING SYSTEM WITH BANK HEADQUARTERS LOCATED MOSTLY IN TORONTO AND MONTREAL EFFECTIVELY LIMITS THE BANKING SERVICES (AND THE SENSITIVITY OF BANKS TO LOCAL NEEDS) IN THE WEST.

5. 1976 WHITE PAPER ON PROPOSED BANK ACT REVISIONS HAD INCLUDED ESTABLISHMENT OF RESERVE REQUIREMENTS ADMINISTERED BY FEDERAL GOVERNMENT ON NEAR-BANK FINANCIAL INSTITUTIONS SUCH AS TRUST COMPANIES AND CREDIT UNIONS IN ORDER TO STRENGTHEN THE BANKING SYSTEM. THIS PROVISION WAS STRONGLY RESISTED BY SOME PROVINCES, ESPECIALLY QUEBEC, AS A FEDERAL INTRUSION INTO AREAS OF BANK ADMINISTRATION UNDER THEIR JURISDICTION. THIS PROPOSAL HAS BEEN DROPPED IN C-57.

6. FEDERAL RESERVE REQUIREMENTS FOR NEW AND EXISTING CHARTERED BANKS ARE TO BE REVISED. PRIMARY CASH RESERVES,

CURRENTLY TWELVE PERCENT ON DEMAND DEPOSITS AND FOUR PERCENT ON NOTICE (TIME) DEPOSITS, ARE TO BE CHANGED TO TEN PERCENT FOR CANADIAN DOLLAR DEMAND DEPOSITS, THREE PERCENT OF THE FIRST 500 MILLION DOLS OF NOTICE DEPOSITS, TWO PERCENT FOR NOTICE DEPOSITS OVER 500 MILLION DOLS, AND THREE PERCENT ON FOREIGN CURRENCY DEPOSITS. THERE IS NO CHANGE PROPOSED FOR SECONDARY RESERVE REQUIREMENTS FOR BANKS FROM THE PRESENT PROVISIONS REQUIRING BANKS TO HOLD FEDERAL TREASURY BILLS AND DAY-TO-DAY LOANS AMOUNTING TO

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PAGE 01 OTTAWA 02571 02 OF 02 192330Z
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LIMITED OFFICIAL USE SECTION 02 OF 02 OTTAWA 02571

UP TO TWELVE PERCENT (CURRENTLY SET AT FIVE PERCENT) OF TOTAL ASSETS.

7. BANKS WILL HAVE POWERS TO UNDERTAKE EQUIPMENT LEASING AND FACTORING (BROKERING OF CASH RECEIVABLES), BUT THEY WILL BE PROHIBITED FROM ENGAGING IN TRUST AND SECURITY UNDERWRITING. THEY WILL BE LIMITED IN DATA PROCESSING SERVICES ONLY TO THOSE WHICH ARE "BANK-RELATED." TRUST OPERATIONS HAVE THUS BEEN RESERVED FOR THE EXISTING NEAR-BANKS, EFFECTIVELY LIMITING FURTHER COMPETITION IN THIS AREA FOR THEM.

8. OF THE TOTAL NUMBER OF BANK DIRECTORS, NO MORE THAN FOUR AND NOT MORE THAN HALF MAY BE OFFICERS OR EMPLOYEES OF THE BANK. BANK EXECUTIVES WILL NO LONGER BE ALLOWED TO HOLD DIRECTORSHIPS OF CUSTOMER COMPANIES OR ANY OTHER CANADIAN COMPANIES, WITH LIMITED EXCEPTIONS.

9. REACTIONS AND FURTHER COMMENTS WILL BE REPORTED

SEPARATELY. ENDERS

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